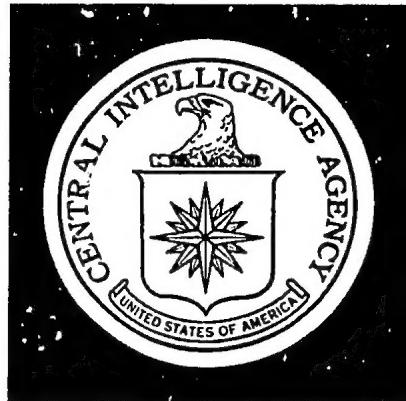


Approved For Release  
2009/10/06 : CIA-RDP85T00875R00160001

Approved For Release  
2009/10/06 : CIA-RDP85T00875R00160001

**Confidential**



DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Economic Outlook for the East Bank of Jordan*

**Confidential**

ER IM 68-101  
AUGUST 1968

COPY NO. 61

## WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.



CONFIDENTIAL

CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
August 1968

INTELLIGENCE MEMORANDUM

Economic Outlook  
for the East Bank of Jordan\*

Summary

The June 1967 Arab-Israeli war and its aftermath have had serious adverse economic consequences on the economy of the East Bank of Jordan.\*\* Industrial production, construction, and other private business activities have declined sharply. Economic development has almost come to a halt except for several government projects. An influx of some 250,000 refugees (mainly unskilled laborers, women, and children) has increased the population of the East Bank by 20 percent and reduced per capita consumption.

The current recession is due far less to the loss of economic assets on the West Bank than to the unsettled political and military situation. The government is preoccupied almost exclusively with military

\* The term Jordan in this memorandum refers to Jordan as it existed before June 1967, including both the East Bank and West Bank with Jerusalem. The term East Bank refers to territory now under the control of the Jordanian government, thus excluding the occupied territory. See the map, Figure 1.

\*\* For the purpose of this memorandum, continued Israeli occupation of the West Bank of Jordan is assumed. This assumption is not intended to be a judgment that such occupation will continue.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

CONFIDENTIAL

**CONFIDENTIAL**

matters and with maintaining its political control. Uncertainty keeps private investment to a minimum and depresses consumer demand. Fear of Israeli military attacks, which has driven farmers from some of the most productive land in the Jordan Valley, seriously threatens agricultural production in the area. Although grant assistance from other Arab countries has brought the government ample foreign exchange and funds for domestic expenditures, it has been unable to implement economic development because of the political climate.

Economic stagnation probably will continue in 1968, particularly in the private sector. Private investment, which has almost ceased, will remain low as long as military incidents continue between Israel and Jordan. Even if more stable political conditions are achieved, Jordan cannot expand economic activity significantly this year. In the long run, however, given political stability, Jordan should be able to regain much of the economic momentum it had before the war.

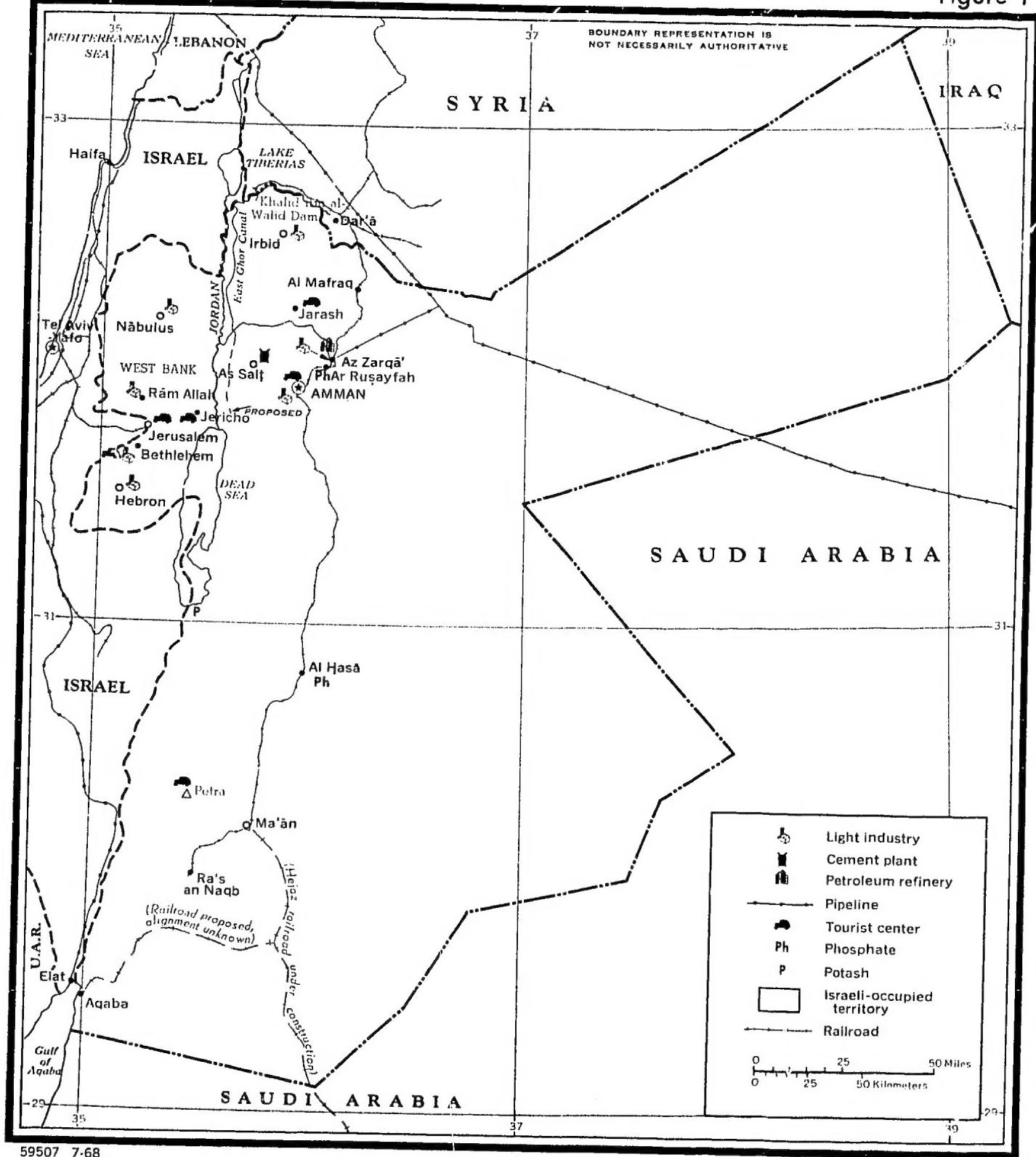
Despite general stagnation, the economy exhibits some positive economic signs. A few industries, such as phosphate mining, cement production, and petroleum refining, not only regained their prewar levels of production in late 1967 but are now producing at record levels. In spite of difficulties caused by closure of the Suez Canal, the increase in production in these industries plus a record level of agricultural production pushed the level of exports in the second half of 1967 to above that in the same period in 1966. This performance is not likely to be repeated in 1968, given current agricultural difficulties.

---

**CONFIDENTIAL**

## JORDAN: Economic Survey

Figure 1



**CONFIDENTIAL**The Jordanian East Bank Economy

1. The East Bank economy has a very narrow natural resource base and is plagued with shortages of managerial and skilled labor. These shortages are intensified by a continuing emigration of skilled persons and war-induced immigration of some 250,000 refugees, mainly unskilled laborers, women, and children. Although some occurrences of manganese, copper, and a few other minerals have been discovered, the only known exploitable resources consist of a limited amount of agricultural land and deposits of such nonmetallic minerals as phosphate and potash. Jordan has no timber or fishing resources.

2. Despite the lack of natural resources, however, the economy of the East Bank, utilizing large amounts of foreign aid, grew rapidly during the 12 years prior to the 1967 war. The gross national product (GNP) for all of Jordan rose from about \$140 million in 1954 to more than \$520 million in 1966 (current prices), an increase of more than 270 percent, and per capita GNP rose from \$151 in 1957 to \$250 in 1966, an annual gain of 6 percent. Since most of Jordan's growth occurred on the previously less developed East Bank, the rate of increase for GNP in this area was considerably more than that of Jordan as a whole. East Bank GNP in 1966 amounted to about \$335 million, and per capita GNP is estimated to have reached \$260. The estimated distribution of income by source for the East Bank in 1966 is given in the following tabulation:

**CONFIDENTIAL**

## CONFIDENTIAL

	<u>Percent</u>
Government	18
Agriculture a/	17
Commerce	16
Manufacturing and mining	14
Transportation	8
Rent	7
Services	6
Construction	6
Factor income from abroad	5
Banking and finance	2
Utilities	1
 Total	 100

*a. Agricultural production in 1966 was abnormally low because of poor rains; usually this sector represents about 25 percent of total income.*

3. Despite stagnation in most of the private sector since the June 1967 war, total income for the East Bank increased somewhat in 1967 because of a large agricultural output (due to favorable weather) and increased government defense and refugee expenditures financed by foreign aid. Even though total income increased, per capita income declined significantly because of the inflow of approximately 250,000 refugees, which raised the East Bank's population by about 20 percent.

Agriculture

4. The economy of the East Bank depends heavily on farm production. Agriculture supplies as much as 30 percent of GNP in very good agricultural years and about 25 percent in normal years. In 1966 it provided direct employment for 40 percent of the labor force, about 55 percent of total exports, and many essential inputs for other sectors of the economy. Much of the manufacturing and trade on the East Bank consists of processing or handling agricultural products.

CONFIDENTIAL

## CONFIDENTIAL

5. Of a total land area of some 16 million acres, only about 1.4 million acres (less than 9 percent) are cultivated, and much of the cultivated land is of little use because of erratic rainfall. In 1967, most of the cultivated land was devoted to grain production (61 percent). Vegetables and fruit are produced on only 6 percent and 4 percent, respectively, of the cultivated area, with the remainder being land in fallow. In value terms, however, production of grains, fruits, and vegetables is more evenly divided and was distributed in 1967 as follows: grains, 48.4 percent; vegetables, 35.5 percent; and fruits, 16.1 percent.

6. Under prodding by the Jordanian government and with considerable US aid, agricultural production grew rapidly prior to the June war. Although production varied erratically from year to year, an average rate of increase of more than 12 percent a year was achieved after 1959. The principal government agricultural development projects were water control and distribution projects, the most important of which was the East Ghor Canal\* (see the photographs, Figures 2 and 3). The government also instituted programs to raise labor and land productivity, reduce soil erosion and overgrazing, provide agricultural credit, and aid in marketing.

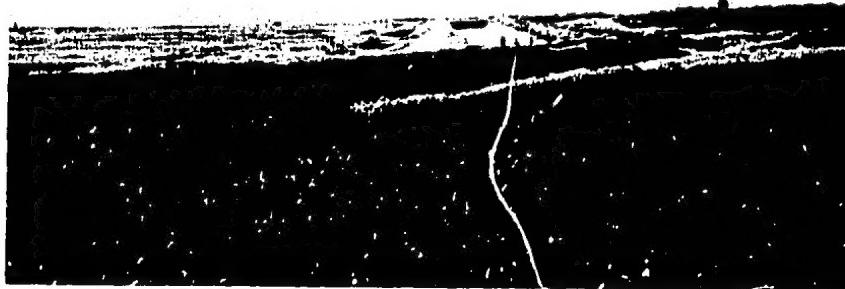


Irrigated Fields in the East Ghor

\* The Ghor is the floor of the geological depression through which the Jordan River flows.

CONFIDENTIAL

CONFIDENTIAL



*The East Ghor Irrigation Canal and Some Surrounding Fields*

7. Initially, the Arab-Israeli war did not affect agricultural production on the East Bank significantly. Little fighting took place on the East Bank, and the farmers were able to care for their fields and harvest crops with little interruption. In fact, agricultural production in 1967 was at record levels, primarily because of favorable rains and increased irrigation.

8. Beginning in February 1968, however, agriculture on the East Bank, especially in the important East Ghor area, has been disrupted seriously by postwar military activity.

25X6

25X6

25X6

[REDACTED] Most farmers have withdrawn from the East Ghor area because of fear, causing an immediate sharp reduction in output in this important area.

9. Continued fighting in the East Ghor area, the "garden spot" of Jordan, could be very costly to the economy of the East Bank. This area provided about 45 percent of total East Bank agricultural production in 1967. The fighting already has caused the loss of a large portion of a better than average wheat crop in the Ghor this year and much of the tomatoes and other vegetable crops. If the present level of fighting continues, some of the important citrus crop also will be lost. The greatest danger to the economy over the longer run, however, is the

CONFIDENTIAL

**CONFIDENTIAL**

loss of the citrus and banana orchards if water is withheld for more than three or four weeks; replacement of these trees would take up to ten years, during which time no production would be achieved.

10. If the fighting stops, on the other hand, the long-run prospects for agriculture on the East Bank are good. The 12-percent average annual growth rate that had been achieved before the war could well continue. Many new citrus trees planted in the past five or six years will be ready for full production in the next few years (see the photograph, Figure 4). The government also has a project underway to extend the East Ghor Canal plus other irrigation projects that will add significantly to the amount of land available for irrigation. Water supplies for the East Ghor extension, however, will be limited until completion of the Khalid ibn al-Walid Dam, where construction is now halted because the north end is in Israeli-occupied territory. Other projects financed by foreign aid, such as the wheat research and development project of the US Agency for International Development, already have had a beneficial effect and could increase agricultural production still further in the next few years (see the photograph, Figure 5).



An Orchard in the East Ghor. The Small Trees in the Foreground are New Plantings. The Jordan River is Directly Behind the Tall Row of Trees

**CONFIDENTIAL**

**CONFIDENTIAL**

*The US AID Wheat Demonstration Plot in the Background  
Compares Very Favorably With Traditional Wheat-Growing  
Methods in the Foreground*

Industry

11. Although industry in Jordan has been growing in importance, most of the industrial goods consumed are imported. Imports of industrial goods in 1965 amounted to \$135 million, compared with a total Jordanian output of \$107 million. During the period from 1959 through 1965, however, valued added by industry rose by about 160 percent, or at an average annual rate of more than 17 percent. During the several years preceding the war, this annual rate of growth exceeded 20 percent, and employment rose to almost 10 percent of the labor force. By 1966, industry contributed nearly 10 percent of total GNP.

12. Although nearly 60 percent of the industrial units in Jordan are on the West Bank, about 70 percent of the total value of industrial output is produced on the East Bank. The principal installations on the East Bank include the cement plant near As Salt; the petroleum refinery at Az Zarqa; the steel rolling mill (producing steel rods), the cardboard box factory, the tannery, and the detergent factories, all located between Ar Rusayfah and Az Zarqa; and the phosphate mines at Ar Rusayfah and Al Hasa. New light industries, such as the pharmaceutical, woolen cloth, and cigarette industries, also have been built on the East Bank. Amman and Irbid are the country's leading centers for light industry. Most of the larger plants and most new plants are partly government owned and receive financial support from the government.

**CONFIDENTIAL**

**CONFIDENTIAL**

13. Even though little fighting occurred on the East Bank, industrial production was disrupted seriously by the June 1967 war. Some industries on the East Bank lost major markets on the West Bank. Both the petroleum and cement industries lost about 30 percent of their normal markets, and many small businessmen producing goods for tourists lost their entire market. Importers located on the East Bank also were adversely affected by the loss of their West Bank market (all West Bank imports were channeled through the East Bank). A slowdown in phosphate production, Jordan's most important single export, also occurred because of the closure of the Suez Canal, the main export route.

14. Even though most of the industries producing consumer goods are still suffering from the loss of their West Bank markets and a generally low demand for consumer goods on the East Bank, most of the major producer goods and export industries had regained full production by late fall 1967. The phosphate industry increased production to record levels, exporting from Aqaba primarily to India, China, and Ceylon and via Beirut to Yugoslavia, Italy, and Czechoslovakia. The petroleum industry -- because of sales to Iraqi army units on the East Bank, the increase in population, and some new export markets -- is now producing near capacity, and the refinery will be redesigned and reequipped to double its capacity. The cement industry too has increased production since the war because of development of export markets. The closure of the Suez Canal has made Jordanian cement exports competitive in markets East of Suez despite a relatively long land haul from As Salt to the Port of Aqaba. To help the depressed consumer goods industries, the government has bought a partial interest in some firms and has provided some financial assistance to others.

15. The rise in military incidents since February has intensified the pessimistic attitude of private businessmen, and confidence in the economy remains very low. Prospects for increasing production of consumer goods in the near term are poor because of a lack of consumer demand. Investment in industry (which had been high prior to the war) has been almost nonexistent since the war except for those

**CONFIDENTIAL**

**CONFIDENTIAL**

few industries that receive some government financing, such as the petroleum, cement, and phosphate industries.

**Construction**

16. The construction industry, a relatively minor segment of the East Bank economy, producing only about 6 percent of the East Bank's GNP and employing 10 percent of its labor force, has declined greatly since the war. Much private construction and some government development projects have halted. Work on the largest construction project in Jordan, the Khalid ibn al-Walid Dam, was stopped because the north end of the dam is in Israeli-occupied territory. Shortly after the war, the government of Jordan undertook a few public projects, including road building and extension of the East Ghor irrigation system, which brought some life into the construction industry. Most of these projects have been completed, however, and the East Ghor extension project has been halted because increased Israeli military activity caused workers to refuse to work in the East Ghor area. The construction industry cannot recover until either public or private investment is increased, a doubtful prospect in the short term.

**Foreign Trade**

17. Although both the agricultural and the manufacturing production of Jordan increased greatly prior to the war, Jordan remains dependent on imports for a major portion of its food requirements and manufactured items. The value of imports in 1966 was equivalent to about 37 percent of GNP. Jordan's consistently large trade deficit, equal to 82 percent of imports in 1966, has been financed through exports of services, tourism, remittances from Jordanians working abroad, and by large amounts of foreign aid.

18. The principal impact of the June 1967 war on foreign trade was a reduction of about 20 percent in imports from \$191 million in 1966 to \$155 million in 1967. The factors underlying the drop in imports were a reduction of the population by roughly 40 percent through the loss of the West Bank and the decrease in economic activity on the East Bank.

**CONFIDENTIAL**

**CONFIDENTIAL**

Nevertheless, the actual decline in imports has not been as great as might have been the case. Some imported goods continue to be transshipped to West Bank residents, and other imported goods have been required to maintain new refugees and to support Iraqi and Saudi Arabian armed forces stationed on the East Bank.

19. Exports, on the other hand, have been affected very little by the war, except for the inconvenience in delivering phosphate exports to European markets because of the closure of the Suez Canal. In fact, because of a record level of phosphate production and the bumper agricultural production,\* exports in the second half of 1967 were the highest in Jordanian history for a like period. Total exports of \$32 million for all of 1967, however, were slightly below the record \$34 million in 1966.

20. The closure of the Suez Canal has increased the costs of most imports and the exports of phosphate to countries west of Suez. Jordan's only port, Aqaba on the Gulf of Aqaba, now has no practical access to the Mediterranean Sea. Ships from the United States, the United Kingdom, and Europe must go around Africa to reach this port. Some Jordanian foreign trade transits Lebanon as a result of an agreement with Lebanon that reduced transit fees on goods entering Beirut. Jordan, however, is benefiting from increased transit trade of goods from countries East of Suez to Syria and Lebanon.

21. The trade deficit in 1967 of about \$123 million was substantially below that of \$157 million in 1966 because of the reduction in imports in the second half of the year while exports remained at a high level. The trade deficit in the last half of 1967 was only \$47.2 million compared with that of \$88.9 million in the same period in 1966. Although data for the first quarter of 1968 show a continuing decline in the trade gap, expenditures for military goods almost certainly will cause the deficit for the whole year to be considerably larger than in 1967.

---

\* West Bank agricultural production is still being exported through the East Bank to traditional Arab markets.

**CONFIDENTIAL**

## CONFIDENTIAL

Foreign Aid

22. Prior to the June 1967 war, foreign assistance to Jordan consisted mainly of grants from the United States, the United Kingdom, and the UN Relief and Works Agency for Palestinian Refugees (UNRWA); only a small portion was received as loans. During the period 1960 through 1965, grants totaled \$418 million and loans only \$49 million. Most assistance from the United States and the United Kingdom since late 1967, however, has been in the form of loans. The total value of loans outstanding as of 1 October 1967 was only about \$131 million, of which \$82.1 million had been spent. Approximately \$45 million of the loan total consisted of interest-free loans extended by the United Kingdom since 1949. Amortization of the loans has been deferred by agreement with the United Kingdom, and this procedure probably will continue for some time to come. Repayments on the external public debt have been small -- in 1965, for example, they represented less than 1 percent of foreign exchange receipts -- but are expected to increase steadily to approximately 11 percent of foreign exchange receipts by 1972.

23. Following the June 1967 war, Jordan's receipts of foreign aid increased sharply. Emergency aid granted from Arab states immediately after the war amounted to \$46.5 million. In addition, Kuwait, Saudi Arabia, and Libya collectively agreed at the Khartoum Summit Conference to provide grants of \$105.6 million a year\* as long as Israel continues to occupy the West Bank.

25X1

\* Originally the amount of aid extended to Jordan under the terms of the Khartoum Conference was \$112 million annually calculated at the old exchange rate for the British pound of \$2.80 per British pound. However, with devaluation of the British pound in November 1967 to \$2.40 per British pound, Kuwait did not adjust its payments in sterling, thus decreasing the dollar value; Saudi Arabia and Libya adjusted their payments to compensate for the British devaluation. The action of Kuwait reduced the total dollar value of the Khartoum aid from \$112 million annually to \$105.6 million annually.

CONFIDENTIAL

**CONFIDENTIAL**

24. Jordan also has received military aid in the form of equipment and of grants to purchase military equipment. Centurion tanks and some other military equipment have been supplied by Iraq, Egypt, and Kuwait. Funds for the purchase of military equipment have been received from Abu Dhabi (\$14 million) and Qatar and Bahrein (less than \$1 million). Additional assistance from these and other Arab countries may be forthcoming, especially if conflicts along the border with Israel continue.

25X1

25. In addition to aid received directly by the government of Jordan, refugees and others affected by the war receive assistance from UNRWA, Near East Emergency Donations (NEED), and many foreign governments. By far the largest organization giving assistance to refugees is UNRWA, which has been supplying housing, clothing, food, medicine, and educational needs of the refugees since 1948. NEED, a US organization formed by businessmen after the June 1967 war, has given assistance for various projects to aid refugees and other war victims. Most of the NEED funds are channeled through UNRWA; some funds, however, are given to the government of Jordan and private organizations for specific projects.

**Balance of Payments**

26. Jordan's balance of payments has shown large surpluses every year since 1960 except in 1963, despite large trade deficits. The balance-of-payments surpluses, resulting primarily from receipts of foreign aid, have enabled the accumulation of gold and foreign exchange totaling \$250 million, an amount adequate to cover almost two years' imports at the rate achieved in the first quarter of 1968. The balance of payments of Jordan for 1965, 1966, and 1967 is shown in Table 1.

**CONFIDENTIAL**

## CONFIDENTIAL

Table 1

Jordan: Balance of Payments a/  
1965-67

	<u>Million US \$</u>		
	<u>Calendar Years</u>		
	<u>1965</u>	<u>1966</u>	<u>1967</u>
Goods and services	<u>-75</u>	<u>-100</u>	<u>-81</u>
Goods	-128	-157	-123
Services (excluding tourism)	38	40	39
Tourism	15	17	3
Transfers	<u>82</u>	<u>95</u>	<u>151</u>
Private	8	7	6
Government	75	88	145
Capital movements	<u>7</u>	<u>15</u>	<u>5</u>
Net errors and omissions	<u>3</u>	<u>14</u>	<u>-4</u>
Changes in reserves <u>b/</u>	-17	-25	-72

a. Because of rounding, components may not add to the totals shown.

b. A minus sign (-) indicates an increase in assets or a reduction in liabilities.

27. Ironically, because of the June 1967 war, the balance-of-payments surplus in 1967 was by far the largest in Jordanian history -- more than \$70 million. This surplus resulted primarily from the large amounts of foreign aid received: more than \$100 million from Arab countries and almost \$50 million from the United States, the United Kingdom, UNRWA, and minor contributors. As a result, holdings of foreign exchange increased by about 30 percent as of May 1968 over those held just prior to the June 1967 war.

CONFIDENTIAL

**CONFIDENTIAL**

28. The June war also had a major impact on the goods and services item in the balance of payments, lowering the usual high deficit. The trade deficit in 1967, compared with that for 1966, was reduced by more than 20 percent. Imports in the last half of 1967 were down sharply while exports actually were higher than normal. Earnings from total services including tourism, however, were cut as a result of the war by nearly 30 percent in 1967, compared with 1966. The usual large tourism surplus dropped from \$17 million in 1966 to \$3.4 million in 1967, primarily because of the loss of income from Jerusalem and the West Bank coupled with an increase in Jordanians traveling abroad. The loss of the West Bank and Jerusalem also caused a drop in remittances from abroad.

29. Although the government of Jordan has purchased large amounts of military equipment from the United States and the United Kingdom, Jordan again should experience a balance-of-payments surplus in 1968. Foreign aid promised at Khartoum by Saudi Arabia, Libya, and Kuwait should total at least \$77 million and probably will reach \$106 million in 1968, depending on whether or not aid is continued after October. Although the United States and the United Kingdom have suspended budget support grants, both countries are continuing to give aid, such as development loans, PL 480 assistance, and technical assistance loans. The balance-of-payments position also is expected to continue to benefit from large amounts of aid for refugees from UNRWA and others.

**Public Finance**

30. The government of Jordan has relied heavily on foreign aid to finance both its ordinary and development budgets. In 1966, for example, foreign assistance made up about 40 percent of total government revenue, and covered the bulk of economic development expenditures and 25 percent of ordinary budget expenditures. In 1968, moreover, foreign assistance probably will rise to more than 65 percent of the ordinary budget expenditures.

31. Although domestic revenue has declined by more than 50 percent since June 1967 with a simultaneous small increase in expenditures, the June 1967

**CONFIDENTIAL**

**CONFIDENTIAL**

war has not affected government finances adversely. Foreign aid received since the war has more than offset the decline in domestic revenue. The original 1967 budget of \$150 million was augmented by supplementary budget expenditures of \$31 million. The supplementary budget provided for the following: \$11 million for increased military and public security expenditures; \$1 million for increases in expenditures of other government agencies; \$7 million for emergency war expenditures, of which \$2.4 million was for refugees; and \$12 million for development, most of which was special investments, loans, and subsidies, principally to Jordanian companies in financial difficulty. Despite the increase of \$31 million in the 1967 budget due to the war, a surplus of about \$27 million was realized.

32. In formulating the 1968 budget the government of Jordan realized that to justify continued receipt of large amounts of foreign aid, it could not have as large a surplus as it did in 1967. Planned budget expenditures of \$237 million, therefore, were increased to \$246 million by the addition of a supplementary budget. The new budget, more than 85 percent larger than that for the last full pre-war year of fiscal year 1965/66,\* includes development expenditures of about \$88 million. These proposed expenditures almost certainly will not be carried out in full because of current political conditions. Even with the payment of roughly \$45 million for US arms in 1968 (which had not been included in the 1968 government budget), the total actual expenditures of the government probably will fall short of the \$246 million. (For official and probable government of Jordan revenues and expenditures for 1968, see Table 2.)

\* The government's fiscal year now coincides with the calendar year. Prior to 1966, however, the fiscal year ran from 1 April to 31 March.

**CONFIDENTIAL**

**CONFIDENTIAL**

Table 2

Jordan: Official Government Budget  
and Estimated Probable Government Revenues  
and Expenditures  
1968

	<u>Million US \$</u>	
	<u>Official Budget</u>	<u>Estimated Actual</u>
<b>A. Expenditures <u>a/</u></b>		
Civilian (current)	51.8	46
Armed services <u>b/</u>	107.0	115
Development	38.1	20
Subtotal	196.9	181
<b>B. Expenditures directly financed by foreign aid <u>c/</u></b>		
Armed services <u>d/</u>		17
Development	40.4	22
Subtotal	40.4	39
<b>C. Supplementary budget <u>e/</u></b>	9.2	0
<b>Total</b>	<u>246.5</u>	<u>220</u>
<b>D. Revenue <u>a/</u></b>		
Domestic	51.8	58
Khartoum aid	105.6	106
Foreign military aid <u>d/</u>		15
Subtotal	157.4	179
<b>E. Revenue earmarked for specific expenditures (equal to B above) <u>c/</u></b>		
Armed services <u>d/</u>		17
Development	40.4	22

**CONFIDENTIAL**

**CONFIDENTIAL**

Table 2

Jordan: Official Government Budget  
and Estimated Probable Government Revenues  
and Expenditures  
1968  
(Continued)

	<u>Million US \$</u>	
	<u>Official Budget</u>	<u>Estimated Actual</u>
Subtotal	40.4	39
Carryover from 1967	26.9	27
Total	<u>224.7</u>	<u>245</u>
Balance on hand	-21.8	25

- a. PL 480 aid, amounting to \$2.1 million, is not shown on either the expenditures or the revenue side of budget.
- b. Including investment in military equipment from all sources including the United States and paid for directly by the government of Jordan.
- c. These expenditures are offset completely by revenues earmarked for the specific expenditures in item B; therefore, any increase or decrease in these revenues will not affect the overall budget surplus or deficit, but will affect only expenditures under item B.
- d. Not included in current government budget.
- e. The supplementary budget declared by the government of Jordan is for development projects. Additional government development is doubtful.

**Money Supply and Prices**

33. The money supply in all of Jordan, according to official government statistics, increased 41 percent from April 1967 to April 1968. (For money supply in this period, see Table 3.) If the money supply on the West Bank has remained relatively constant, as the Jordanian government assumes, then the increase for East Bank residents must have been at least 60

**CONFIDENTIAL**

## CONFIDENTIAL

percent. This expansion resulted from increases in domestic government spending and decreases in tax receipts, which greatly raised the budget deficit on domestic transactions. Most of the increase in foreign aid, which more than covered the domestic deficit, was not spent on imports but rather was added to foreign exchange reserves and therefore did not take domestic currency out of circulation. All of the new money is in the form of currency in circulation. Demand deposits have dropped only slightly despite the lack of confidence in the economy. A small decrease in demand deposits in April reflected increased tension between Israel and Jordan.

Table 3

Jordan: Money Supply  
30 April 1967 - 30 April 1968

	Million US \$				
	30 April 1967	30 June 1967	31 December 1967	31 March 1968	30 April 1968
Currency in the hands of the public	89.5	116.7	143.9	154.7	161.4
Demand deposits	78.1	70.6	73.8	77.8	75.5
Money supply	167.6	187.3	217.7	232.5	236.9

34. In spite of the large increase in the money supply, prices on the East Bank since the June war have remained relatively stable. Lack of confidence in the future of the economy has induced consumers and businessmen to curb their rate of spending and to try to achieve greater liquidity. Fluctuations have occurred in food prices, reflecting availability of farm products. Based on a monthly average in 1967 of 100, the price index in June 1968 was 98.8, down 2.8 percent from the previous month. If confidence in the economy is restored, however, business and consumer demand will rise, and the increased money supply coupled with an increase in the turnover of this

CONFIDENTIAL

**CONFIDENTIAL**

money could result in rapid inflation even though imports and production would also increase.

**Prospects**

35. Jordan's short-run economic prospects are for a continuation for some time of the current low level of economic activity. So long as political uncertainty persists and military incidents along the ceasefire line with Israel recur, businessmen will continue to be pessimistic and very cautious concerning new investment. The government is pre-occupied almost exclusively with military matters and with the problems of political control. Under these circumstances, the East Bank economy has little chance of increasing economic activity, even with the acquisition of relatively large amounts of foreign aid.

36. Even if political stability is achieved, the prospects for economic revival during the next two years are only fair. Tourism, the most rapidly expanding sector of the economy before the war and the sector with by far the greatest potential, is largely lost to Jordan so long as Israel continues to occupy the West Bank and Jerusalem. Some gains, however, would be made in agriculture if quiet is restored in the East Ghor, and gradually private investment should grow. With greater stability, the government could devote a larger proportion of its energies to public investment, funds for which are already in hand.

37. In the long run, given political stability, Jordan, even without the West Bank, probably can regain much of the economic momentum that it had prior to the war. The potash and phosphate industries can be developed and expanded in view of expected rising demand for fertilizers in south and southeast Asia. Considerable development also can be expected in the important agricultural sector. Nevertheless, Jordan is not likely to become financially independent for many years, indicating a continuing long-term need for foreign aid.

**CONFIDENTIAL**